MULLETT TOWNSHIP CHEBOYGAN COUNTY, MICHIGAN

Financial Statements For the Year Ended March 31, 2006

Prepared By: Richard E. Mahlmeister, C.P.A., P.C. 580 South Nicolet, P.O.Box 996 Mackinaw City, MI 49701

Michigan Oepartment of Treasury 496 (02/06)

Aud	litin under	ng P	rocedu 2 of 1968, as	ires Rej	port d P.A. 71 of 1919	, as amended.				
			ernment Typ		<u> </u>	<u> </u>	Local Unit Nam	е		County
	count	у	□City	⊠Twp	□Village	□Other	Mullett Tow	nship		Cheboygan
	al Year		2000		Opinion Date	10 0000		Date Audit Report Submit		
March 31, 2006 November			16, 2006		November 24, 20					
		that:								
			•		licensed to p		•			-1' N N
					erial, "no" resp ments and rec			sed in the financial state	ments, inclu	iding the notes, or in the
	YES	8	Check ea	ach applic	able box bel	ow. (See in	structions for	further detail.)		
1.	×						of the local uents as neces		nancial state	ements and/or disclosed in the
2.		X						nit's unreserved fund ba oudget for expenditures.		estricted net assets
3.	×		The local	l unit is in o	compliance wi	th the Unifo	orm Chart of A	ccounts issued by the D	Department o	of Treasury.
4.	X		The local	l unit has a	dopted a bud	get for all re	equired funds.			
5.	×		A public	hearing on	the budget w	as held in a	accordance wi	th State statute.		
6.	×			l unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or dance as issued by the Local Audit and Finance Division.						
7.	X		The local	l unit has n	ot been delin	quent in dis	tributing tax re	evenues that were collection	cted for ano	ther taxing unit.
8.	X		The local	l unit only l	nolds deposits	/investmen	its that comply	with statutory requirem	nents.	
9.	×				no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for</i> its of Government in Michigan, as revised (see Appendix H of Bulletin).					
10.	×		There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.							
11.	×		The local	l unit is f <i>re</i>	e of repeated	comments	from previous	years.		
12.	×		The audi	t opinion is	UNQUALIFI	ĒD.				
13.	×				complied with ng principles (G		r GASB 34 as	modified by MCGAA S	tatement #7	and other generally
14.	×		The boar	d or cound	il approves a	l invoices p	rior to payme	nt as required by charte	r or statute.	
15.	×		To our kr	nowledge,	bank reconcil	ations that	were reviewe	d were performed timely	/-	
incl des	uded cripti	in tl on(s	his or any) of the au	other aud thority and	dit report, nor /or commissio	do they o n.	s included) is btain a stand and accurate in	-alone audit, please er	undaries of aclose the n	the audited entity and is not ame(s), address(es), and a
				e following		Enclosed		d (enter a brief justification		
			tements		<u> </u>	\boxtimes			,	
The letter of Comments and Recommendations										
Oth	er (D	escrib	e)							
			Accountant (F		D O			Telephone Number		
			Mahlmei -	ster, CPA	., PC			231-436-5223	State	Zip
Street Address 580 South Nicolet Street, P.O. Box 996				City Mackinaw City	MI	49701				
	_		Signature,	11	7/2/		rinted Name		License N	Number
力	! !s.	hi	ul,	Mas	Klab, C	<i>Q/</i> 1 F	Richard E. M	ahlmeister, CPA	17351	

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

	<u>PAGE</u>
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	1
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Balance Sheet-Governmental Funds	3 - 4
Statement of Revenues, Expenditures and Changes	
In Fund Balances-Governmental Funds	5 – 6
Statement of Fiduciary Net Assets	7
Notes to Financial Statements	8 – 17
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule – General Fund	18- 19
Budgetary Comparison Schedule – Special Revenue –	
Fire Fund	20
Budgetary Comparison Schedule – Special Revenue –	
Library Fund	21
OTHER SUPPLEMENTARY INFORMATION	
Combining Financial Statements:	
Special Revenue - Nonmajor Governmental Funds:	
Balance Sheet	22
Special Revenue – Nonmajor Governmental Funds:	
Statement of Revenues, Expenditures	
And Changes in Fund Balances	23

Member: American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

November 16, 2006

Township Board Mullett Township Cheboygan County, Michigan

I have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of *Mullett Township*, *Cheboygan County*, *Michigan*, as of and for the year ended March 31, 2006, which collectively comprise *Mullett Township's* basic financial statements as listed in the table of contents. These financial statements are the responsibility of *Mullett Township's* management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of *Mullett Township*, *Cheboygan County*, *Michigan*, as of March 31, 2006, and the respective changes in financial position, thereof and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as of March 31, 2006.

The Township has not presented a Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required, to be a part of the basic financial statements.

The budgetary comparison information on pages 18 through 21, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise *Mullet Township's* basic financial statements. The other supplementary information, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Richard E. Mahlmeister, C.P.A.

Seekand, Malmert CPA

BASIC FINANCIAL STATEMENTS



MULLETT TOWNSHIP STATEMENT OF NET ASSETS MARCH 31, 2006

ACCETC	GOVERNMENTAL
ASSETS	ACTIVITIES
Cash and cash equivalents	\$506,575
Investments	620,216
Receivables:	•
Property taxes	17,044
Due from fiduciary fund	77
Due from other governmental units	14,601
Capital assets (Net of Accumulated Depreciation)	520,073
TOTAL ASSETS	\$1,678,586
LIABILITIES AND NET ASSETS	
LIABILITIES:	
Accrued payroll	\$11,399
Accrued interest	64
Long-term liabilities:	
Capital lease payable, due within one year	519
Capital lease payable, due in more than one year	2,318
TOTAL LIABILITIES	14,300
NET ASSETS:	
Invested in capital assets, net of related debt	517,236
Unrestricted	1,147,050
TOTAL NET ASSETS	1,664,286
TOTAL LIABILITIES	
AND NET ASSETS	\$1,678,586

The accompanying notes are an integral part of these financial statements.

MULLETT TOWNSHIP STATEMENT OF ACTIVITIES FOR THE YEAR ENDED MARCH 31, 2006

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions
Primary government			
Governmental activities			
Legislative	\$23,213	s -	\$ -
General government	97,961	-	-
Public safety	147,538	19,649	2,211
Public works	138,297	-	-
Recreation and culture	47,929	-	-
Other	19,921	-	-
Interest on loug-term debt	209		.
Total governmeutal activities	475,068	19,649	2,211

General Revenues
Property taxes
State-shared revenues
Penal fines
Unrestricted interest income
Other
Total general revenues
Change in net assets
Net assets, beginning of year
Net assets, end of year

The accompanying notes are an integral part of these financial statements.

in Net Assets Governmental Activities **Capital Grants** and Contributions TOTAL \$ (\$23,213) 4,755 (93,206) (125,678) (138,297) 1,981 (45,948)(19,921) (209)6,736 (446,472) 314,038 92,782 11,588 31,228 2,063 451,699

Net (Expense) Revenue and Changes

5,227

1,659,059

\$1,664,286

FUND FINANCIAL STATEMENTS

MULLETT TOWNSHIP BALANCE SHEET - GOVERNMENTAL FUNDS MARCH 31, 2006

	GENERAL	FIRE	LIBRARY
<u>ASSETS</u>	FUND	FUND	FUND
Cook and each equivalents	\$242,744	\$168,758	\$77,808
Cash and cash equivalents Investments	618,750	1,466	3//,000
Taxes receivable	9,916	6,922	-
Due from other governmental units	14,601	-	-
Due from tax collection fund	77	<u>-</u>	-
TOTAL ASSETS	\$886,088	\$177,146	\$77,808
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accrued payroll	\$2,937	\$7,250	\$1,212
FUND BALANCES			
Unreserved:			
Designated for:			
Subsequent years' expenditures	220,405	33,600	14,025
Unreserved, undesignated	662,746	136,296	62,571
TOTAL FUND BALANCES	883,151	169,896	76,596
TOTAL LIABILITIES			
AND FUND BALANCES	\$886,088	\$177,146	\$77,808

OTHER NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
\$17,265	\$506,575
-	620,216
206	17,044
-	14,601
	77
\$17,471	\$1,158,513
s -	\$11,399
9,844	277,874
7,627	869,240
17,471	1,147,114
\$17,471	\$1,158,513

MULLETT TOWNSHIP BALANCE SHEET - GOVERNMENTAL FUNDS MARCH 31, 2006

Reconciliation of fund balances on the balance sheets for governmental activities to the statement of net assets \$1,147,114 **FUND BALANCES - TOTAL GOVERNMENTAL FUNDS** Amounts reported for governmental activities in the statement of net assets are different because: Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 1,091,543 Add: capital assets (571,470)Subtract: accumulated depreciation Certain liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the funds, and consist of: Subtract: long-term liabilities (2,837)Subtract: accrued interest on long-term liabilities (64)\$1,664,286 NET ASSETS OF GOVERNMENTAL ACTIVITIES

The accompanying notes are an integral part of these financial statements.

MULLETT TOWNSHIP STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED MARCH 31, 2006

	GENERAL FUND	FIRE FUND	LIBRARY FUND
REVENUES:			
Taxes	\$186,547	\$123,349	\$ -
Federal revenues	4,755	-	•
State shared revenues	92,202	-	-
State aid	-	-	1,981
Charges for service	-	19,649	-
Penal fines	-	-	11,588
Donations	-	321	1,890
Interest	27,814	1,556	1,530
Other	912	1,128	23
TOTAL REVENUES	312,230	146,003	17,012
EXPENDITURES			
Current:			
Legislative	23,213	•	-
General government	85,914	-	-
Public safety	-	83,116	-
Public works	127,656	-	•
Recreation and culture	15,127	-	22,778
Other functions	19,921	-	-
Capital outlay	66,214	3,060	1,011
Debt service:			
Principal on capital lease	294	-	-
Interest on capital lease	145	<u>-</u>	
TOTAL EXPENDITURES	338,484	86,176	23,789
REVENUES OVER (UNDER) EXPENDITURES	(26,254)	59,827	(6,777)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	•	3,000
Operating transfers (out)	(3,200)	-	-
Long-term financing	3,131	· · · · · · · · · · · · ·	·
TOTAL OTHER FINANCING SOURCES (USES)	(69)	<u>-</u>	3,000
NET CHANGE IN FUND BALANCES	(26,323)	59,827	(3,777)
FUND BALANCES, BEGINNING OF YEAR	909,474	110,069	80,373
FUND BALANCES, END OF YEAR	\$883,151	\$169,896	\$76,596

The accompanying notes are an integral part of these financial statements.

OTHER NOT GOVERNM FUNI	IENTAL	TOTAL GOVERNMENTAL FUNDS
	\$4,142	\$314,038
	-	4,755
	580	92,782
	-	1,981
	-	19,649
	-	11,588
	220	2,211 31,228
	328	2,063
	5,050	480,295
	_	23,213
	_	85,914
	775	83,891
	10,641	138,297
	,	37,905
	_	19,921
	-	70,285
	-	294
	-	145
	11,416	459,865
	(6,366)	20,430
	200	3,200
	-	(3,200)
		3,131
	200	3,131
	(6,166)	23,561
	23,637	1,123,553
	\$17,471	\$1,147,114

MULLETT TOWNSHIP STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS FOR THE YEAR ENDED MARCH 31, 2006

Reconciliation of statement of revenues, expenditures and changes in fund balances of governmental funds to statement of activities NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$23,561 Amounts reported for governmental activities in the statement of activities are different because: Governmental funds report capital outlays as expenditures. However, those costs are allocated over their useful lives as annual depreciation expense in the statement of activities. Add: capital outlay capitalized during the current year 70,285 (85,718)Subtract: depreciation expense Capital lease loan proceeds provide current financial resources to governmental funds however, issuing debt increases long-term liabilities in the statement of net assets. Repayment of capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. (3,131)Subtract: Capital lease loan proceeds 294 Add: principal payments on capital lease payable Some expenses in the statement of activities do not require the use of current finanical resources and therefore are not reported as expenditures in governmental funds. Add: prior year accrued interest on capital lease

The accompanying notes are an integral part of these financial statements.

Subtract: current year accrued interest on capital lease

CHANGES IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

(64)

\$5,227

MULLETT TOWNSHIP STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUND MARCH 31, 2006

	ASSETS	AGENCY FUND
•	Cash	\$77
•		
۹.	LIABILITIES	
•	Due to other funds	
•	NET ASSETS	
-	Fiduciary Net Assets	\$

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Mullett Township, Cheboygan County, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the most significant policies.

Mullett Township adopted the governmental reporting model and implemented Governmental Accounting Standards Board (GASB) Statement 34, Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments, and Statement No. 38, Certain Financial Statement Note Disclosures and applied those standards as of April 1, 2004. Under the provisions of GASB Statements Nos. 34 and 38, the focus of the Township's financial statements has shifted from a fund focus to a government-wide focus. Private-sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989.

THE REPORTING ENTITY

In accordance with the provisions of the Governmental Accounting Standards Board's Statement No. 14, "The Financial Reporting Entity", the financial statements of the reporting entity include those of the Township and any component units. The basic criterion for including a governmental department, agency, institution, commission, public authority or other governmental organization in a governmental unit's financial report is the exercise of oversight responsibility over such agencies by the governmental unit's elected officials. The manifestations of such oversight responsibility are financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters. The Township has determined that no entities should be consolidated into its financial statements as component units. Therefore, the reporting entity consists of the primary government financial statements only.

The Township jointly operates two separate cemeteries with Burt and Aloha Townships of Cheboygan County. Both the Mullet-Burt Cemetery and Aloha Township Cemetery have separate independent boards. Burt and Aloha Townships have historically reported the financial activity for each cemetery. Mullett Township's share of the costs are shown as expenses of the General Fund.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund activity has been removed from these statements.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-Wide Financial Statements (Continued)

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use. Or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items are not properly included among program revenues are reported instead as general revenue.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. GASB Statement No. 34 sets forth minimum criteria, based on percentage of the assets, liabilities, revenues or expenditures/expenses of the governmental and proprietary funds, for the determination of major funds.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Property taxes, state shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue in the current fiscal year. All other revenue items are considered to be available when cash is received by the government.

FUND TYPES AND MAJOR FUNDS

Governmental Funds

The Township reports the following major funds:

General Fund - The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund. Financing is provided primarily by property taxes and state shared revenues.

Fire Fund - The Special Revenue - Fire Fund is used to account for expenditures related to contracted, township provided, fire service. Financing is provided primarily by a special property tax levy.

<u>Library Fund</u> - The Special Revenue - Library Fund is used to account for expenditures related to the Township's public library Financing is provided primarily by penal fines, state aid and contributions from the General Fund.

The Township reports the following special revenue - nonmajor funds:

<u>Liquor Law Enforcement Fund</u> - The Liquor Fund accounts for liquor license fees refunded by the State and utilized for enforcement of the State's liquor laws.

<u>Street Lighting Fund</u> - The Street Lighting Fund accounts for providing street lighting for a special district. Financing is provided primarily by a special property tax levy.

Fiduciary Funds

<u>Trust and Agency Fund</u> - The Tax Collection Fund is used to account for property taxes collected for the Township and as an agent for other governmental units. Fiduciary activities are not reported in the government-wide financial statements, in accordance with GASB Statement No. 34.

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of demand deposits, cash in savings and money market accounts.

INVESTMENTS

Investments are stated at cost, which approximates market, and consist of certificates of deposit with maturity values of three months or longer.

INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. All receivables are reported at their gross values. Interfund transfers reflect the use of unrestricted revenues collected in the General Fund used to finance programs accounted for in other funds in accordance with budgetary provisions.

ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain report amounts and disclosures. Accordingly, actual results could differ from those estimates.

COMPENSATED ABSENCES AND POST-EMPLOYMENT BENEFITS

There is no accumulated vacation, sick leave or post-employment benefits to be recognized.

CAPITAL ASSETS

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items). Capital assets are generally defined by the government as assets with an initial individual cost of \$2,500 and an estimated useful life in excess of one year and all books. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Expenditures for maintenance and repair are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Because the Township is considered a phase 3 government for GASB 34 implementation requirements, the Township is not required to report infrastructure retrospectively. Any future infrastructure additions will be capitalized, if any.

(Continued)

NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED) CAPITAL ASSETS (CONTINUED)

Estimated useful lives, in years, for depreciable assets, as follows:

Buildings and improvements	15-40 years
Office and other equipment	5 - 10 years
Fire equipment	5-10 years
Fire vehicles	5-20 years
Library books and materials	3 - 5 years

LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources. Issuance costs are reported as debt service expenditures.

FUND EQUITY

Reserved fund balances for governmental funds indicates that portion of fund equity which has been legally segregated for specific purposes and/or does not constitute current available spendable resources. Designated fund balance indicates that portion of fund equity for which the Township has made tentative plans. Undesignated fund balance indicates that portion of fund equity, which is available for budgeting in future periods.

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds.

The Township follows the following procedures in establishing the budgetary data reflected in the financial statements:

- 1. Prior to the beginning of the fiscal year, the Township Supervisor submits to the Township Board a proposed operating budget for the fiscal year commencing on April 1.
- 2. Public hearings are conducted to obtain taxpayer comments.
- 3. Normally, prior to March 31, the budget is legally enacted through passage of a resolution.
- 4. Budgeted amounts are as originally adopted, or as amended by the Township Board.
- 5. Appropriations expire at the end of the fiscal year.

NOTES TO FINANCIAL STATEMENTS

NOTE 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures Over Appropriations in Budgetary Funds

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Township's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Township for these budgetary funds were adopted to the activity level.

During the year the Township incurred expenditures which exceeded the amount appropriated was as follows:

Fund	Appropriations	Expenditures	<u>Variance</u>
GENERAL -Debt service	\$ -	\$459	\$459

Adoption of Deficit Budget

Public Act 2 of 1968, as amended, provides that a local unit shall adopt a balanced budget whereas budgeted expenditures may not exceed budgeted revenues plus the prior year surplus. Though no deficit spending occurred, during the year ended March 31, 2006, the Township adopted a budget for the Liquor Law Enforcement Fund where the budgeted expenditures exceeded the budgeted revenues plus prior year surplus in the amount of \$58.

NOTE 3: PROPERTY TAX

Property tax revenues for the year ended March 31, 2006, reflected in the accompanying financial statements include property taxes levied December 31, 2005. These taxes are due by February 15, 2006, and are added to the County tax rolls after February 28, 2006. The Township will receive 100% payment for the delinquent tax by June, 2006.

The taxable value of the Township totaled \$84,878,101, on which ad valorem taxes consisted of 1.8683 mills for the Township's operating purposes 1.4703 mills for fire protection and .1 mills for street lighting, raising \$156,945 for operating purposes, \$123,349 for fire protection, and \$4,142 for street lighting.

NOTE 4: CASH AND CASH EQUIVALENTS

The caption on the statements of net assets relating to cash and cash equivalents and investments represent deposits in varying amounts was as follows:

Cash and cash equivalents	\$506,652
Investments (certificates of deposit)	620,216
	\$1,126,868

(Continued)

NOTES TO FINANCIAL STATEMENTS

NOTE 4: CASH AND CASH EQUIVALENTS (CONTINUED)

The Township uses a common bank account. The equity of each fund in the common account was as follows:

General Fund	\$3,994
Special Revenue – Fire Fund	719
Special Revenue – Library Fund	(849)
Special Revenue – Street Lighting Fund	165
	\$4,029

Custodial Credit Risk - Deposits

At year-end the carrying amounts of deposits were classified as to risk, as follows:

	Carrying	Bank
	Amount	Balance
Insured (FDIC)	\$490,409	\$490,409
Uninsured – uncollateralized	636,459	646,772
	\$1,126,868	\$1,137,181

The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution. Only those institutions with an acceptable estimated level are used as depositories. The Township may experience significant fluctuations in deposit balances through the year.

Statutory Authority

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States government or Federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township's deposits and investment policy are in accordance with statutory authority.

NOTES TO FINANCIAL STATEMENTS

NOTE 5: INTERFUND BALANCES AND TRANSFERS

The composition of interfund receivables and payables for the year ended March 31, 2006 was as follows:

	Interfund	Interfund
Fund	Receivable	Payable
General	\$77	\$ -
Tax Collection	·	77
Total	\$77	\$77

Interfund transfers consisted of the following for the year ended March 31, 2006:

	Transfer	Transfer
Fund	Out	In
General	\$3,200	\$ -
Special Revenue-Library	-	3,000
Special Revenue-Liquor Law Enforcement		200
Total	\$3,200	\$3,200

NOTE 6: CAPITAL ASSETS

Capital asset activity of the governmental activities for the current year was as follows:

	Balance			Balance
	April 1, 2005	Additions	Deletions	March 31, 2006
Not being depreciated:				
Land	\$23,902	\$ -	\$ -	\$23,902
Being Depreeiated:				
Buildings and Improvements	333,674	52,426		386,100
Office and other Equipment	42,731	13,788	-	56,519
Fire equipment	48,568	3,060	-	51,628
Fire vehicles	567,772	-	-	567,772
Library books and			-	
Materials	4,611	1,011		5,622
Subtotal	1,021,258	70,285		1,091,543
Less accumulated				
depreciation	(485,752)	(85,718)	-	(571,470)
Total	\$535,506	(\$15,433)	\$ -	\$520,073

NOTES TO FINANCIAL STATEMENTS

NOTE 6: CAPITAL ASSETS (CONTINUED)

Depreciation was charged to the Township's functions, as follows:

General government	\$12,047
Public safety	63,647
Recreation and culture.	10,024
	\$85.718

NOTE 7: CAPITAL LEASE AND LONG-TERM DEBT

The Township has entered into a capital lease agreement for a security system, which will become the Township's property when the terms of the lease are met.

A summary of long-term obligations related to the capital lease agreement for the year ended March 31, 2006, as follows:

	Balance			Balance	Due Within
	April 1, 2005	 Additions	(Reductions)	March31,2006	One Year
Protection One, quarterly payments of \$220, including interest at 13.55%, through September, 2011.					
September, 2011.	\$	 \$3,131	(\$294)	\$2,837	\$519

The following schedule presents the future minimum lease payments as of March 31, 2006:

Year Ended March 31,	Amount
2007	\$878
2008	878
2009	878
2010	878
<u>2011</u>	<u>285</u>
Total minimum payments due	3,797
Less amounts representing interest	<u>960</u>
Present value of net minimum lease payments	<u>\$2,837</u>

Interest expense for the year ended March 31, 2006 was \$209.

(Continued)

NOTES TO FINANCIAL STATEMENTS

NOTE 7: CAPITAL LEASE AND LONG-TERM DEBT (CONTINUED)

The security equipment cost and related accumulated depreciation under the capital lease was as follows:

Office and other equipment	\$6,356
Less: Accumulated depreciation	(636)
Total	\$5,720

NOTE 8: RISK MANAGEMENT

Mullett Township participates in the Michigan Township Participating Plan for general liability, property loss, professional, public official errors and omissions liabilities. This plan is a self-insurance risk association operating within the State of Michigan pursuant to Act 138, Michigan Public Acts of 1982. This plan, through its risk manager, secures insurance policies or reinsurance treaties to cover the risks undertaken on behalf of the Township. The Township pays an annual premium to the Michigan Participating Plan for its general insurance coverage and has no additional liability beyond the premiums made to this plan.

The plan has a maximum liability for property of \$718,600, general liability of \$3,000,000, wrongful acts of \$2,000,000, crime of \$10,000, automobile of \$1,000,000, inland marine liability of \$113,200 and bonding for public officials errors and omissions. Additionally, the Township has purchased commercial insurance for workman's compensation benefits.

Claims for commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 9: CONTINGENCIES

The Township is contingently liable for the costs of monitoring and remediation of environmental issues arising from the closure of a solid-waste landfill located within the township.

REQUIRED SUPPLEMENTARY INFORMATION

MULLETT TOWNSHIP BUDGETARY COMPARISON SCHEDULE -GENERAL FUND FOR THE YEAR ENDED MARCH 31, 2006

VARIANCE WITH

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Taxes:				
Property tax	\$149,600	\$149,600	\$156,945	\$7,345
Property taxes - administrative fee	20,000	20,000	29,602	9,602
Total taxes	169,600	169,600	186,547	16,947
Federal revenues		-	4,755	4,755
State shared revenues:				
State shared revenues	55,000	55,000	87,761	32,761
State shared revenues-METRO Act	2,250	2,250	2,613	363
Swampland and commercial forest tax	1,500	1,500	1,828	328
Total state shared revenues	58,750	58,750	92,202	33,452
Interest	4,000	4,000	27,814	23,814
Other revenue:				
Other	500	500	912	412
Total other revenue	500	500	912	412
TOTAL REVENUES	232,850	232,850	312,230	79,380

MULLETT TOWNSHIP BUDGETARY COMPARISON SCHEDULE GENERAL FUND FOR THE YEAR ENDED MARCH 31, 2006

VARIANCE WITH

	ORIGINAL	FINAL		FINAL AMENDED BUDGET POSITIVE
CURRENT:	BUDGET	BUDGET	ACTUAL	(NEGATIVE)
LEGISLATIVE Township board	\$35,300	\$35,300	\$23,213	\$12,087
GENERAL GOVERNMENT				
Supervisor	14,500	15,700	15,612	88
Assessor	25,000	25,000	13,105	11,895
Elections	6,200	6,200		6,200
Professional services	6,000	6,000	1,550	4,450
Board of Review	7,300	7,300	3,455	3,845
Clerk	14,800	14,900	13,457	1,443
Treasurer	17,155	17,495	17,473	12.499
Township property	26,100	28,100	14,612	13,488
Cemetery	6,650	6,650	6,650	·
TOTAL GENERAL GOVERNMENT	123,705	127,345	85,914	41,431
PUBLIC WORKS	134 500	122 700	120.270	12 220
Highways and streets	132,700	132,700	120,370	12,330
Sanitation	14,300	12,260	7,286	4,974
TOTAL PUBLIC WORKS	147,000	144,960	127,656	17,3 <u>04</u>
RECREATION AND CULTURE				
Parks	25,000	25,000	15,127	9,873
OTHER FUNCTIONS			10.004	0.050
Insurance, bonds and other benefits	28,000	28,000	19,921	8,079
CAPITAL OUTLAY	104,400	102,600	66,214	36,386
DEBT SERVICE				(20.)
Principal payments on capital lease	•	-	294	(294)
Interest payments on capital lease	-	<u>-</u>	145	(145)
TOTAL DEBT SERVICE			439	(439)
TOTAL EXPENDITURES	463,405	463,205	338,484	124,721
REVENUES OVER (UNDER) EXPENDITURES	(230,555)	(230,355)	(26,254)	204,101
OTHER FINANCING SOURCES (USES)				
Operating transfers (out)	(3,000)	(3,200)	(3,200)	-
Long-term financing	_	-	3,131	3,131
Operating transfers (out)	(3,000)	(3,200)	(69)	3,131
NET CHANGE IN FUND BALANCE	(233,555)	(233,555)	(26,323)	207,232
FUND BALANCE - BEGINNING OF YEAR	909,474	909,474	909,474	-
FUND BALANCE - END OF YEAR	\$675,919	\$675,919	\$883,151	\$207,232

MULLETT TOWNSHIP BUDGETARY COMPARISON SCHEDULE SPECIAL REVENUE - FIRE FUND FOR THE YEAR ENDED MARCH 31, 2006

Donations	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
REVENUES:				
Property tax	\$107,000	\$107,000	\$123,349	\$16,349
Charges for service	12,000	12,000	19,649	7,649
Donations	-	-	321	321
Interest	600	600	1,556	956
Other		<u>-</u>	1,128	1,128
TOTAL REVENUES	119,600	119,600	146,003	26,403
EXPENDITURES:				
Public safety	81,300	81,300	83,116	(1,816)
Capital outlay	57,000	57,000	3,060	53,940
TOTAL EXPENDITURES	138,300	138,300	86,176	52,124
NET CHANGE IN FUND BALANCE	(18,700)	(18,700)	59,827	78,527
FUND BALANCE, BEGINNING OF YEAR	110,069	110,069	110,069	
FUND BALANCE, END OF YEAR	\$91,369	\$91,369	\$169,896	\$78,527

MULLETT TOWNSHIP BUDGETARY COMPARISON SCHEDULE SPECIAL REVENUE - LIBRARY FUND FOR THE YEAR ENDED MARCH 31, 2006

7 20 40		ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL AMENDED BUDGET POSITIVE (NEGATIVE)
-	REVENUES:				
	State aid	\$1,200	\$1,200	\$1,981	\$781
::A	Penal fines	12,000	12,000	11,588	(412)
	Donations	1,000	1,000	1,890	890
***	Interest	800	800	1,530	730
-: •	Other		100	23	(77)
-	TOTAL REVENUES	15,100	15,100	17,012	1,912
	EXPENDITURES:	***	20.000	22.779	4.022
	Recreation and culture	28,800	28,800	22,778	6,022
a dd	Capital outlay	4,600	4,600	1,011	3,589
-	TOTAL EXPENDITURES	33,400	33,400	23,789	9,611
YSAR	REVENUES OVER (UNDER) EXPENDITURES	(18,300)	(18,300)	(6,777)	11,523
-	OTHER FINANCING SOURCES (USES)				
-	Operating transfers in	3,000	3,000	3,000	<u>-</u>
	NET CHANGE IN FUND BALANCES	(15,300)	(15,300)	(3,777)	11,523
· 1 -\$	FUND BALANCE, BEGINNING OF YEAR	80,373	80,373	80,373	<u> </u>
4	FUND BALANCE, END OF YEAR	\$65,073	\$65,073	\$76,596	\$11,523

OTHER SUPPLEMENTARY INFORMATION

MULLETT TOWNSHIP COMBINING BALANCE SHEET SPECIAL REVENUE - NONMAJOR GOVERNMENTAL FUNDS MARCH 31, 2006

	LIQUOR LAW ENFORCEMENT FUND	STREET LIGHTING FUND	TOTAL
ASSETS:			
Cash and cash equivalents	\$344	\$16,921	\$17,265
Taxes receivable	-	206	206
	\$344	\$17,127	\$17 <u>,471</u>
FUND BALANCES:			
Designated for subsequent years' expenditures	\$344	\$9,500	\$9,844
Unreserved, undesignated		7,627	7,627
	\$344	\$17,127	\$17,471

MULLETT TOWNSHIP COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - SPECIAL REVENUE - NONMAJOR GOVERNMENTAL FUNDS MARCH 31, 2006

	LIQUOR LAW ENFORCEMENT FUND	STREET LIGHTING FUND	TOTAL
REVENUES:	-		
Property taxes	\$ -	\$4,142	\$4,142
State shared revenues	580	-	580
Interest	7	321	328
TOTAL REVENUES	587	4,463	5,050
EXPENDITURES:			
Public safety	775	-	775
Public works	-	10,641	10,641
TOTAL EXPENDITURES	775	10,641	11,416
REVENUES OVER (UNDER) EXPENDITURES	(188)	(6,178)	(6,366)
OTHER FINANCING SOURCES (USES)			
Operating transfers in	200	-	200
NET CHANGE IN FUND BALANCES	12	(6,178)	(6,166)
FUND BALANCES - BEGINNING OF YEAR	332	23,305	23,637
FUND BALANCES - END OF YEAR	\$344	\$17,127	\$17,471



Member: American Institute of Certified Public Accountants Michigan Association of Certified Public Accountants

November 16, 2006

Township Board Mullett Township Cheboygan County, Michigan

In planning and performing my audit of the financial statements of *Mullett Township*, *Cheboygan County*, *Michigan*, for the year ended March 31, 2006, I considered the Township's internal control structure to determine my auditing procedures for the purpose of expressing opinions on the financial statements and not to provide assurance on the internal control structure.

However, during my audit I became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and recommendations regarding those matters. This letter does not affect my report dated November 16, 2006 on the financial statements of *Mullett Township*.

Thank you for the opportunity to serve *Mullett Township*. I appreciate the assistance I received from both the Clerk and Treasurer during my audit. Best wishes in the next year.

Mallandorn

Sincerally,

Richard E. Mahlmeister, C.P.A.

Mullett Township Comments & Recommendations November 16, 2006 Page 2 (two)

Reportable Condition

Reportable conditions involve matters coming to my intention relating to significant deficiencies in the design or operation of the internal control structure that, in my judgement, could adversely affect Mullett Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The reportable condition that exists is that there is a lack of segregation of duties in both the receipting and disbursement function of Mullett Township. This condition is generally inherent in organizations the size of Mullett Township, where corrective action is not practical, and is not considered to be a material weakness.

Excess of Expenditures Over Appropriations

Public Act 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended March 31, 2006, the Township incurred expenditures in certain budgetary funds, which exceeded the amount appropriated, as shown in the body of the financial statements.

I recommend that the Township Board on a periodic basis, review appropriations as compared to actual expenditures and, prior to incurring additional expenditures, amend the budget as necessary to avoid incurring expenditures in excess of appropriations.

Budget Adoption

The budget for the fiscal year ended March 31, 2006 was adopted on April 6, 2005. State of Michigan statutes requires that the budgets be adopted prior to the beginning of the fiscal year.

I recommend that future budgets be adopted prior to the beginning of each fiscal year in order to comply with state statute.

Adoption of Deficit Budget

Public Act 2 of 1968, as amended, provides that a local unit shall adopt a balanced budget whereas budgeted expenditures may not exceed budgeted revenues plus the prior year surplus. Though no deficit spending occurred, during the year ended March 31, 2006, the Township adopted a budget for the Liquor Law Enforcement Fund where the budgeted expenditures exceeded the budgeted revenues plus prior year surplus in the amount of \$58.

(Continued)

Mullett Township Comments & Recommendations November 16, 2006 Page 3 (three)

Adoption of Deficit Budget (Continued)

I suggest that the Township Board review its budgeting procedures so that it will be ensured that future adopted budgets for the Liquor Law Enforcement Fund, as well as other funds, will be balanced in accordance with this Act.